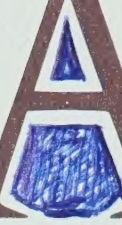


AR43

REDLAW

The logo for Redlaw Enterprises Inc. features a stylized blue shield with a white triangle and a white circle, set against a dark blue background.

ENTERPRISES INC.

ANNUAL REPORT 1976

TABLE OF CONTENTS

Corporate Directory	1
Report to Shareholders	2
Five Year Review.....	4
Summary of Operations.....	5
Consolidated Financial Statements.....	6
Notes to Financial Statements	10
Report of Certified Public Accountants.....	12

REDLAW ENTERPRISES INC.

EXECUTIVE OFFICES

Suite 3902, Royal Trust Tower
P.O. Box 324, Toronto-Dominion Centre
Toronto, Ontario, Canada, M5K 1K7

(416) 363-8401

Montreal

363-8401

0629

BROWN-BEVIS HEADQUARTERS

6550 East Washington Boulevard
City of Commerce, California. 90040
(213) 723-6321

Montreal

EXECUTIVE OFFICERS and DIRECTORS

EXECUTIVE OFFICERS

DAVID L. CHANDLER

Chairman of the Board and Chief Executive Officer

DOUGLAS R. McKAY
President

CHARLES E. SKIDMORE
Executive Vice-President

FRANK W. SIMPSON

Secretary and Treasurer of the Company
and Secretary-Treasurer of Galt Malleable Iron Limited
Ferrous Castings Manufacturer

BOARD OF DIRECTORS

DAVID L. CHANDLER
Chairman of the Board and Chief
Executive Officer, Galt Malleable Iron Limited
Ferrous Castings Manufacturer

HAROLD J. MURPHY, Q.C.
Partner, Garvey, Ferriss
Barristers & Solicitors

ROBERT SMITH
Chairman and President
Talcop Associates Limited
Investment and holding company

DOUGLAS R. McKAY
President
Galt Malleable Iron Limited
Ferrous Castings Manufacturer

CHARLES E. SKIDMORE
Executive Vice-President
Redlaw Enterprises Inc.

RICHARD W. BRISSENDEN
Vice-President and Treasurer
Talcop Associates Limited
Investment and holding company

STOCK LISTING

American Stock Exchange
(ticker symbol RDL)

TRANSFER AGENTS AND REGISTRARS

Bank of America N.T. & S.A.
111 West Seventh Street
Los Angeles, California 90014

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

GENERAL COUNSEL

Sage Gray Todd & Sims
140 Broadway
New York, New York 10005

INDEPENDENT AUDITORS

Arthur Young & Company
515 South Flower Street
Los Angeles, California 90071

FORM 10-K

A copy of the Company's Annual Report on Form 10-K for
the year ended December 31, 1976, as filed with the
Securities and Exchange Commission, may be obtained without
charge, by writing to the Company's Executive Offices.

President's Report to the Shareholders

OPERATIONS

The consolidated financial report for the 12 month period ending December 31st, 1976, as that for the 10 month period ended December 31st, 1975, reflects the results from the operating activities of the wholly owned Brown-Bevis subsidiaries which represented the total operations of the Company.

The level of operations of the Brown-Bevis Companies, which sell and lease new and used heavy construction, industrial and mining equipment (such as cranes, sweepers, rock and sand plants and other materials handling equipment), and to a lesser extent repair and service such types of equipment, remained static during the year due to the continuing depressed state of California's construction industry. Management had done its utmost to increase revenue and maintain profit levels through its program of controlling overhead costs and seeking out specific off-shore market opportunities. However, due to the poor results management is carefully considering the merits

of carrying on these operations in the future. A more complete analysis of these operations is found in the Discussion of the Summary of Operations section of this Annual Report.

RECENT DEVELOPMENTS

CHANGE IN CONTROL

As reported in November of 1976, Bartaco Industries Limited purchased from Talcop Associates Limited 52% of the outstanding shares of the Company and acquired an option to purchase the balance of Talcop's holdings, 9% of the outstanding shares of the Company. Upon the purchase, Messrs. Chandler, Murphy and I were elected as directors and Messrs. Chandler, Simpson and I were appointed officers of the Company. Messrs. Chandler, Murphy and I, through our management activities in Bartaco Industries Limited and its parent company, Galt Malleable Iron Limited, have been involved in the manufacturing of products for the U.S.-Canadian automotive parts and transportation industries.

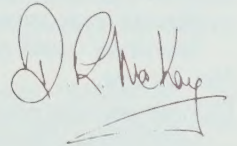
It is management's aim to expand the Company's operations into these market areas so as to utilize effectively the resources of the Company and the expertise of its new management.

ACQUISITION OF INTEREST IN F. L. JACOBS CO.

In furtherance of the aforementioned goals of the Company, on June 9, 1977 the Company acquired a 43% controlling interest in F. L. Jacobs Co. of Grand Rapids, Michigan, which through its Metalcraft Division is a well recognized supplier to the automotive industry. The Metalcraft Division is an original equipment manufacturer of sheet metal stampings and assemblies for the automotive industry and, to a limited degree, also manufactures parts for the television and appliance industries. This acquisition is merely the first step in management's program of applying the Company's substantial cash reserves to successful operating businesses serving the automotive and transportation markets.

The increasing needs of these market areas present great promise for the Company's future growth and prosperity. Management is intent on taking full advantage of the opportunities which are present and has already commenced its program to meet the challenges involved.

Douglas R. McKay
President



June 20, 1977

Five Year Financial Review

The following consolidated summary of income of Redlaw Enterprises Inc. is not reported upon herein by certified public accountants and should be read in conjunction with the Company's consolidated financial statements appearing elsewhere herein.

	Year ended December 31, 1976	Ten months ended December 31, 1975	Years ended February 28,		
			1975	1974	1973
Revenues:					
Net sales	\$3,571,051	\$2,079,010	\$4,248,867	\$2,904,569	\$2,950,234
Equipment rentals	834,254	761,989	1,024,375	1,158,231	1,381,952
Interest and other income	486,666	422,477	606,401	210,541	131,166
	<u>4,891,971</u>	<u>3,263,476</u>	<u>5,879,643</u>	<u>4,273,341</u>	<u>4,463,352</u>
Costs and expenses (b):					
Cost of sales and rentals	3,387,580	1,879,840	3,632,898	2,728,449	3,102,390
Selling, general and administrative	1,085,207	1,072,224	1,531,522	1,323,680	1,135,279
Loss on investment	—	—	293,409	—	—
Interest	—	—	7,335	39,433	53,511
	<u>4,472,787</u>	<u>2,952,064</u>	<u>5,465,164</u>	<u>4,091,562</u>	<u>4,291,180</u>
Income from continuing operations before provision for taxes based on income and item shown below	419,184	311,412	414,479	181,779	172,172
Provision for taxes based on income	<u>197,000</u>	<u>131,000</u>	<u>202,000</u>	<u>46,000</u>	<u>53,000</u>
Income from continuing operations before cumulative effect on years prior to 1973 of accounting changes	222,184	180,412	212,479	135,779	119,172
Discontinued operations (a):					
Income from operations	—	—	302,702	1,398,651	1,355,962
Gain on sale of operating assets	—	—	1,315,291	—	—
	<u>—</u>	<u>—</u>	<u>1,617,993</u>	<u>1,398,651</u>	<u>1,355,962</u>
Income before cumulative effect on years prior to 1973 of accounting change	222,184	180,412	1,830,472	1,534,430	1,475,134
Cumulative effect on years prior to 1973 of change in accounting for equipment inventory, less taxes based on income of \$34,271	—	—	—	—	642,952
Net income	<u>\$ 222,184</u>	<u>\$ 180,412</u>	<u>\$ 1,830,472</u>	<u>\$ 1,534,430</u>	<u>\$ 2,118,086</u>
Income per common share:					
Continuing operations	<u>\$.10</u>	<u>\$.08</u>	<u>\$.09</u>	<u>\$.06</u>	<u>\$.05</u>
Discontinued operations	<u>—</u>	<u>—</u>	<u>.71</u>	<u>.61</u>	<u>.60</u>
Income before cumulative effect on years prior to 1973 of accounting change	.10	.08	.80	.67	.65
Cumulative effect on years prior to 1973 of accounting change	—	—	—	—	.28
Net income	<u><u>\$.10</u></u>	<u><u>\$.08</u></u>	<u><u>\$.80</u></u>	<u><u>\$.67</u></u>	<u><u>\$.93</u></u>
Average number of common and common equivalent shares outstanding	2,273,595	2,273,595	2,284,953	2,288,739	2,288,739

Notes to Five Year Financial Review

- (a) On June 28, 1974, the Company disposed of its plywood business. The Company realized a gain on sale of \$1,315,291 after a provision for taxes of \$661,000. Operations of Fir Ply were as follows:

	Years ended February 28,		
	1973	1974	1975 (to date of sale)
Revenues	\$14,885,358	\$13,859,336	\$6,622,046
Costs and expenses	12,405,396	11,489,685	6,055,344
Taxes based on income	1,124,000	971,000	264,000
Income	<u>\$ 1,355,962</u>	<u>\$ 1,398,651</u>	<u>\$ 302,702</u>
Per common share	<u><u>\$.60</u></u>	<u><u>\$.61</u></u>	<u><u>\$.13</u></u>

- (b) Due to the Company's method of accounting for equipment inventory in its continuing operations, it is not practicable to segregate cost of sales and other direct operating expenses applicable to sales and rentals.
- (c) No dividends on common stock were paid or declared during the period.
- (d) See Note 1 of Notes to Consolidated Financial Statements for a summary of the Company's significant accounting policies.

Discussion of the Summary of Operations

The Company's business experienced a stable level of revenues through 1974, realized a surge during the year ended February 28th, 1975 and has been severely affected by the depressed state of the construction industry during the ten months ended December 31st, 1975 and the year ended December 31st, 1976.

The fiscal period ended December 31st, 1975 consists of only ten months and, therefore, it is difficult to make meaningful comparisons with the years ended December 31st, 1976 and February 28th, 1975.

Although net equipment sales and rentals increased to \$4,405,305 in 1976, a decrease in gross profit margins was experienced. Gross profit margins decreased from 33.8% in 1975 to 23.1% in 1976. *Sales & rentals*

During 1976 there were fifteen large sales of new equipment totalling \$2,544,145, or 57.8% of total net equipment sales revenues, which carried an average gross profit rate of 12.1%. The bulk of these sales, 76.0%, were made for export with the remaining 24.0% made to governmental agencies. Sales to governmental agencies normally carry a smaller gross profit. The balance of net sales and equipment rental revenue for the calendar year 1976, amounting to \$1,861,160 or 42.4%, carried a gross profit of 38.1%. However, a number of equipment sales included therein were the result of conversions from equipment rentals that provided options to purchase the equipment and as such carried a higher than normal rate of gross profit.

Equipment rental revenues amounted to \$834,254. Although these revenues showed an increase of \$72,265, or 9.5%, over similar revenues for the ten-month period ended December 31st, 1975, equipment rental revenues decreased in 1976 when compared to the ten-month 1975 period on an annualized basis. In addition, supplies and parts sales decreased by \$248,443 in 1976. The decreases in gross profit margins on equipment sales, rental revenues and supplies and parts sales continue to reflect the depressed state of the construction equipment business in California.

Selling, general and administrative expenses for the calendar year 1976 amounted to \$1,085,207, or only 1.2% over similar expenses for the ten-month period ending December 31st, 1976. Since this increase was spread over twelve months, in reality, selling, general and administrative expenses decreased in 1976. In 1976 decreases occurred in salaries and wages, legal and other controllable corporate expenses which were somewhat offset by noncontrollable expenses such as increases in property and other taxes and general and products liability insurance.

Total interest and other income for the calendar year 1976 amounted to \$486,666, or 15.2% over similar income for the ten-month period ended December 31st, 1975. This increase was spread over twelve months; hence, there was a relatively small decrease in this type of income in 1976. Some increase was shown in interest income only because invested average cash balances were higher in 1976 than in 1975 which helped offset the 1976 decline in rates of interest available on short-term investments.

The provision for taxes increased \$66,000 in 1976 as a result of an increase in pretax income and an increase in the Company's effective tax rate from 42% in 1975 to 47% in 1976. This increase in the effective tax rate was primarily the result of a decrease in investment tax credits of \$15,000 realized in 1976. The provision for taxes decreased for the ten months ended December 31st, 1975 from the year ended February 28th, 1975 as a result of a decrease in pretax income and a decrease in the Company's effective tax rate from 49% to 42%. This reduction was due primarily to an increase in the effect of investment tax credits.

Stock Market Information

The following table shows the high and low reported sales prices per share of the Company's common stock on the American Stock Exchange (ticker symbol RDL) for the periods indicated:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Full Year</u>
1977	\$2 ³ / ₄ -2 ¹ / ₄				
1976	3 ³ / ₈ -2 ³ / ₈	\$3 ³ / ₈ -2 ³ / ₄	\$3 - 2 ¹ / ₂	\$2 ³ / ₄ -1 ⁷ / ₈	\$3 ³ / ₈ -1 ⁷ / ₈
1975	2 ³ / ₈ -1 ³ / ₈	2 ⁷ / ₈ -1 ³ / ₄	3 ³ / ₄ -2 ⁵ / ₈	3 ¹ / ₄ -2 ¹ / ₄	3 ³ / ₄ -1 ³ / ₈

Consolidated

Assets

CURRENT ASSETS:

	December 31, 1976	December 31, 1975
Cash, including short-term investments at cost of \$6,897,685 in 1976 and \$5,769,219 in 1975	\$ 7,274,501	\$6,230,372
Notes and accounts receivable, less allowance for doubtful accounts of \$9,333 in 1976 and \$31,204 in 1975	389,130	320,710
Inventories (Notes 1 and 2)	2,102,196	2,841,188
Prepaid expenses and deposits	3,688	10,375
Total current assets	9,769,515	9,402,645

INVESTMENT IN REAL PROPERTY, at cost

less accumulated depreciation of \$38,040 in 1976 and \$32,331 in 1975 (Note 1)	217,944	223,653
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PROPERTY, PLANT AND EQUIPMENT, at cost
(Note 1):

Land	83,138	83,138
Buildings and improvements	197,158	197,158
Machinery and equipment	94,626	103,284
	374,922	383,580
Less accumulated depreciation	137,021	130,555
Net property, plant and equipment	237,901	253,025
	<u>\$10,225,360</u>	<u>\$9,879,323</u>

See accompanying notes.

Balance Sheet

Liabilities and Stockholders' Equity

	December 31, 1976	December 31, 1975
CURRENT LIABILITIES:		
Accounts payable	\$ 105,497	\$ 90,833
Taxes based on income (Notes 1, 3 and 6)	614,393	443,267
Accrued compensation and related expenses	44,040	69,722
Other liabilities	<u>24,265</u>	<u>61,975</u>
Total current liabilities	788,195	665,797
 LEASE DEPOSITS	 33,340	 31,885
 COMMITMENTS AND CONTINGENCIES (Note 6)		
 STOCKHOLDERS' EQUITY:		
Common stock, \$.50 par value; 10,000,000 shares authorized, 2,291,378 shares issued (Note 5)	1,145,689	1,145,689
Paid-in capital	1,355,947	1,355,947
Retained earnings (Note 4)	<u>6,952,074</u>	<u>6,729,890</u>
	9,453,710	9,231,526
Less 17,783 treasury shares, at cost	<u>49,885</u>	<u>49,885</u>
Total stockholders' equity	<u>9,403,825</u>	<u>9,181,641</u>
	<u><u>\$10,225,360</u></u>	<u><u>\$9,879,323</u></u>

Consolidated Statement of Income

	Year ended December 31, 1976	Ten months ended December 31, 1975
REVENUES:		
Net sales	\$3,571,051	\$2,079,010
Equipment rentals	834,254	761,989
Interest and other income	486,666	422,477
	<u>4,891,971</u>	<u>3,263,476</u>
COSTS AND EXPENSES (NOTES 1 and 2):		
Cost of sales and rentals	3,387,580	1,879,840
Selling, general and administrative	1,085,207	1,072,224
	<u>4,472,787</u>	<u>2,952,064</u>
INCOME BEFORE PROVISION FOR TAXES based on income	419,184	311,412
PROVISION FOR TAXES based on income (Note 3)	197,000	131,000
NET INCOME	<u>\$ 222,184</u>	<u>\$ 180,412</u>
NET INCOME PER COMMON SHARE, based on the average number of common shares outstanding	<u>\$.10</u>	<u>\$.08</u>
See accompanying notes		

Consolidated Statement of Stockholders' Equity

	Common stock	Paid-in capital	Retained earnings	Treasury stock	Total
Balance February 28, 1975, as previously reported. .	\$1,145,689	\$1,355,947	\$6,423,494	\$(49,885)	\$8,875,245
Net recovery from settlement of lawsuit (Note 4)	—	—	125,984	—	125,984
Balance February 28, 1975, as restated	1,145,689	1,355,947	6,549,478	(49,885)	9,001,229
Net income	—	—	180,412	—	180,412
Balance December 31, 1975	1,145,689	1,355,947	6,729,890	(49,885)	9,181,641
Net income	—	—	222,184	—	222,184
Balance December 31, 1976	<u>\$1,145,689</u>	<u>\$1,355,947</u>	<u>\$6,952,074</u>	<u>\$(49,885)</u>	<u>\$9,403,825</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position

	Year ended December 31, 1976	Ten months ended December 31, 1975
Working capital was provided by:		
Net income	\$ 222,184	\$180,412
Depreciation	30,367	34,319
Working capital provided from operations	252,551	214,731
Book value of real property sold	276	80,844
Increase in lease deposits	1,455	810
	<u>254,282</u>	<u>296,385</u>
Working capital was used by:		
Additions to property, plant and equipment	9,810	12,104
	<u>9,810</u>	<u>12,104</u>
Increase in working capital	<u>\$ 244,472</u>	<u>\$284,281</u>
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash, including short-term investments	\$1,044,129	\$760,975
Notes and accounts receivable	68,420	(504,616)
Inventories	(738,992)	(70,649)
Prepaid expenses and deposits	(6,687)	(9,586)
	<u>366,870</u>	<u>176,124</u>
(Increase) decrease in current liabilities:		
Accounts payable	(14,664)	203,191
Taxes based on income	(171,126)	(48,907)
Accrued compensation and related expenses	25,682	(46,361)
Other liabilities	37,710	234
	<u>(122,398)</u>	<u>108,157</u>
Increase in working capital	<u>\$ 244,472</u>	<u>\$284,281</u>

See accompanying notes.

Notes to Consolidated Financial Statements

December 31, 1976

1. Summary of significant accounting policies

Consolidation and basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated in consolidation. In 1975 Talcorp Associates Limited acquired a 40% interest in the Company from Equity Enterprises Limited, the Company's former parent and in 1976 acquired an additional 20%. In November 1976 Bartaco Industries Limited, a subsidiary of Galt Malleable Iron Limited, acquired 52% interest in the Company from Talcorp Associates Limited.

In December 1975 the Company obtained stockholder approval for a change in its name from Hemdale Enterprises Inc. to Redlaw Enterprises Inc. In October 1975 the Board of Directors resolved to change the Company's fiscal year end to December 31 from February 28.

Inventories

New equipment held for sale or lease is stated at the lower of cost (specific identification) or market.

The principal activity of the Company's equipment business is the sale of heavy construction and mining equipment. The Company, however, may enter into leasing arrangements under which its equipment is leased to customers for periods ranging from several months to six years (accounted for by the operating method). The cost of equipment on lease is amortized against operations in an amount equal to 80% of the lease revenue until the equipment is sold or its original cost, less a 15% residual value, has been recovered through lease revenue. When equipment comes off lease its carrying value may be reduced to not less than 50% of the estimated cash selling price. Used equipment on hand or leased to customers is stated at the lower of unrecovered cost or market.

Market on equipment is determined on the basis of management's estimates of the net realizable value of each item in inventory. These estimates reflect existing market conditions and are reduced by costs of disposal and an allowance for a reasonable profit margin.

Parts and supplies are valued at the lower of cost (first-in, first-out) or market.

Depreciation

The Company depreciates plant and equipment and investment in real property over their estimated useful lives (5-25 years for buildings and improvements and 3-8 years for machinery and equipment) using declining-balance methods until depreciation provided thereunder is less than that available using the straight-line method. Thereafter, depreciation is provided on the straight-line method based upon remaining asset cost and life.

Investment tax credits

Investment tax credits applicable to acquisitions of plant and equipment are applied on the flow-through method as a reduction of the provision for federal income tax. Investment tax credits applicable to equipment in inventory are applied as a reduction of the provision for federal income tax as the possibility of recapture ceases.

2. Inventories

Inventories consist of the following:

	December 31, 1976	December 31, 1975
Equipment:		
Held for sale or lease:		
New	\$ 894,107	\$ 922,878
Used	379,821	409,180
On lease	689,931	1,293,071
Parts and supplies	138,337	216,059
	<u>\$2,102,196</u>	<u>\$2,841,188</u>

The carrying value of equipment on leases which extend beyond one year amounted to approximately \$200,000 at December 31, 1976 and \$725,000 at December 31, 1975. During the term of a lease, the equipment is available for purchase by the lessee whether or not a formal option is given.

3. Taxes based on income

The Company files a consolidated federal income tax return. The provision for taxes based on income is comprised of the following:

	Year ended December 31, 1976			Ten months ended December 31, 1975		
	Current	Deferred	Total	Current	Deferred	Total
Federal	\$213,000	\$(58,000)	\$155,000	\$ 10,000	\$ 98,000	\$108,000
State	42,000	—	42,000	23,000	—	23,000
	<u>\$255,000</u>	<u>\$(58,000)</u>	<u>\$197,000</u>	<u>\$ 33,000</u>	<u>\$ 98,000</u>	<u>\$131,000</u>

The deferred portion of the provision for taxes based on income results primarily from the difference between investment tax credits recorded for book purposes and the amount taken for tax purposes. Investment tax credits deferred as a result of the policy described in Note 1 approximate \$135,000 at December 31, 1976 and \$185,000 at December 31, 1975. Investment tax credits of approximately \$14,000 for the year ended December 31, 1976 and \$29,000 for the ten months ended December 31, 1975 were applied as a reduction of the provision for taxes.

The following summarizes the differences between the provision for taxes based on income and the federal statutory rate:

	Year ended December 31, 1976	Ten months ended December 31, 1975
Statutory federal tax rate	48%	48%
Investment tax credit	(3)	(9)
Provision for state income taxes net of federal tax benefit	5	4
Other	(3)	(1)
Effective tax rate	<u>47%</u>	<u>42%</u>

4. Lawsuit recovery

In June 1976 the Company received \$275,000 from an out-of-court settlement of a lawsuit related to an investment written off in 1971. Retained earnings at February 28, 1975 was credited for the net recovery of \$125,984 (net of related legal fees of \$9,016 and taxes based on income of \$140,000). The Company received a similar settlement in February 1975 related to the same write-off which also was recorded as a prior period adjustment.

5. Stock option plan

The Company has a nonqualified stock option plan providing for the granting of options for the purchase of up to 75,000 shares of the Company's common stock to key employees of the Company and its subsidiaries. At December 31, 1976, 75,000 shares are available for future grant.

6. Commitments and contingencies

Lease commitments

The minimum rental commitments under noncancelable leases with an initial or remaining term of more than one year from December 31, 1976 for land and buildings approximated \$173,000 (net of sublease income of \$130,000) and are due as follows: 1977 — \$64,000, 1978 — \$64,000, 1979 — \$43,000 and 1980 — \$2,000. The minimum rental commitments shown are net of sublease income of \$65,000 in 1977 and 1978.

REDLAW ENTERPRISES INC.

Notes to Consolidated Financial Statements (continued)

Rental expense on leases for periods of approximately one month or more was \$74,000 (net of sublease income of \$65,000) for the year ended December 31, 1976 and \$61,000 (net of sublease income of \$54,000) for the ten months ended December 31, 1975.

Litigation

On July 7, 1975, a shareholders' derivative action was commenced in the Court of Chancery of the State of Delaware, County of Newcastle, against the Company, one of its current directors, five of its former directors, Equity Enterprises Limited (Equity) and Hemdale Leisure Corporation (HLC), an affiliate of Equity. The plaintiff, alleges, among other things, (1) that certain transactions between the Company and HLC related to an investment written off in the year ended February 28, 1975 were on terms unduly favorable to HLC, (2) that the plywood business of Fir Ply (a former subsidiary) was sold for an inadequate consideration in order to raise cash for the activities of Equity and HLC, (3) that proceeds of the Fir Ply sale have not been put to productive use by the Company, and (4) that, by reason of the foregoing, the individual defendants and Equity breached their fiduciary duties to the Company. On September 9, 1975, the action was dismissed without prejudice as to four of the five former directors of the Company. The Company, Equity and the remaining individual defendants have filed answers denying the allegations of the complaint. The lawsuit is presently in the early stages of discovery and no opinion of the ultimate outcome can be determined at this time. Management believes that the resolution of this matter will not have a material effect on the consolidated financial statements.

Taxes based on income

The Company's federal income tax returns for the years ended February 28, 1974 and 1975 and the ten months ended December 31, 1975 are currently being reviewed by the Internal Revenue Service. Certain preliminary adjustments which could have a material effect on the financial statements have been proposed by the agent relating to the Company's taxable income for the years ended February 28, 1975 and 1974. No provision has been made for any additional assessment of tax as the eventual settlement amount is not determinable. However, management believes that a settlement, if any, will not materially affect the consolidated financial statements.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Redlaw Enterprises Inc.

We have examined the accompanying consolidated balance sheet of Redlaw Enterprises Inc. at December 31, 1976 and the related consolidated statements of income, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the consolidated financial statements for the ten months ended December 31, 1975.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Redlaw Enterprises Inc. at December 31, 1976 and December 31, 1975 and the consolidated results of operations and changes in financial position for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Los Angeles, California
February 28, 1977

Arthur Young & Company

